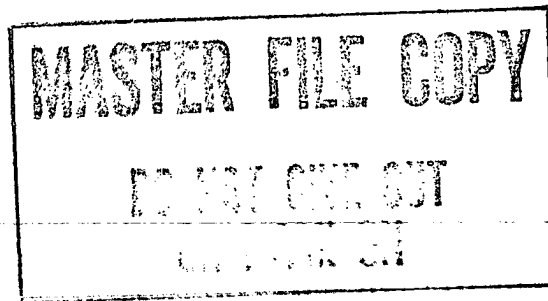




**Directorate of
Intelligence**

~~Confidential~~

25X1



New Zealand's Robert Muldoon: A Combative Politician

25X1

An Intelligence Assessment

~~Confidential~~

EA 84-10026
February 1984

Copy **304**

Page Denied



**Directorate of
Intelligence**

Confidential

25X1

New Zealand's Robert Muldoon: A Combative Politician

25X1

An Intelligence Assessment

25X1

This paper was prepared by [redacted]
[redacted] Office of East Asian Analysis, with a
contribution from [redacted] Office of Central
Reference. Comments and queries are welcome and
may be directed to the Chief, Southeast Asia
Division, OEA, [redacted]

25X1

25X1

25X1

Confidential

*EA 84-10026
February 1984*

Confidential

25X1

**New Zealand's Robert Muldoon:
A Combative Politician**

25X1

Key Judgments

*Information available
as of 25 January 1984
was used in this report.*

Prime Minister Muldoon will be seeking his fourth term in elections late this year. He will have to convince voters that he has accomplished a good deal in trying to bolster New Zealand's troubled economy:

- Unemployment that has reached a record 6 percent may overshadow the decisive leadership he has given the country for eight years.
- Muldoon also runs the risk that voters may be weary of his abrasiveness—a trait atypical of New Zealanders.

On the other hand, although the opposition Labor Party now leads in polls, its electoral chances are undercut by deep ideological divisions and its inability to advance any credible alternative to Muldoon's economic programs.

Muldoon is a staunch, albeit sometimes sharply questioning, ally of the United States. He is generally satisfied with access to the US market of New Zealand's agricultural exports that are vital to its economy. But he remains alert to any US action—such as disposal of surplus butter—that would impinge on his country's foreign markets.

A Labor victory would create difficulties in the US relationship. Labor, in seeking to capitalize on widespread nuclear fears that span the political spectrum in New Zealand, has served notice that it would follow the practice of the last Labor government and deny port calls by US nuclear-powered naval ships.

25X1

Confidential

*EA 84-10026
February 1984*

Confidential

25X1

Muldoon's Foreign Policy Views

Foreign Trade. In line with New Zealand's high dependence on earnings from agricultural exports, Muldoon says, "Our foreign policy is trade," meaning that trade considerations generally take precedence over political factors. For example, New Zealand imposed only minimal sanctions on the Soviet Union after its invasion of Afghanistan and on Iran during the US hostage crisis in order not to jeopardize growing markets. [REDACTED]

United States. Muldoon has revitalized the US relationship within the Australia-New Zealand-United States (ANZUS) alliance. He has underscored his commitment by permitting port visits by US nuclear-powered warships, a policy that has a political cost in view of widespread nuclear fears among New Zealanders. His occasional outspokenness on US foreign policy is intended to be helpful, not carping, according to foreign affairs officials in Wellington. In 1977, for example, he believed the United States was paying too much attention to Europe and neglecting the Pacific and ANZUS, a criticism that reflected his occasional worries that the United States does not reciprocate the importance he places on the ANZUS alliance. [REDACTED]

Australia. New Zealand places great importance on relations with its large neighbor, despite the almost familial irritants that crop up between them. Last year the two countries signed the Closer Economic

Relations agreement under which they agreed to phase out trade tariffs, despite lingering doubts by some protected industries in both countries. Muldoon has a high regard for Australian Labor Prime Minister Hawke, despite their ideological differences. He and Hawke's conservative predecessor, Malcolm Fraser, had an ill-concealed dislike for each other. [REDACTED]

South Pacific. New Zealand acts as informal ANZUS mentor of its neighboring South Pacific islands. The unobtrusive New Zealanders work well among the islanders, and 70 percent of New Zealand's modest foreign aid program is committed to the South Pacific. Although Muldoon in past years was accused of belittling the independent island nations, he now shows sympathy for them and has good relations with island leaders. [REDACTED]

Southeast Asia. New Zealand maintains cordial relations with members of the Association of Southeast Asian Nations (ASEAN), providing economic assistance within its limited means. As a token of his interest in the area, Muldoon has kept a 900-man military battalion in Singapore, reversing his Labor predecessor's plans to withdraw the unit. In contrast to Australia, New Zealand—out of respect for the ASEAN position—has continued to recognize the Kampuchean Pol Pot group despite abhorrence of Pol Pot's excesses while in power. [REDACTED]

Confidential

Confidential

25X1

New Zealand's Robert Muldoon: A Combative Politician

25X1

An Atypical New Zealander

After more than eight years in office, 62-year-old Prime Minister Muldoon dominates New Zealand politics to an unprecedented degree.

has gained three successive terms in office since 1975, but his government, with only a one-seat parliamentary majority, faces a tough fight for reelection late this year.

25X6

25X6

25X1

25X6



Prime Minister Muldoon.

25X1

commitment to the Australia-New Zealand-United States (ANZUS) alliance, which has been central to New Zealand's foreign policy since World War II.

25X1

Inauspicious Beginnings

Muldoon was born into a poor Auckland family. After his father was incapacitated by a stroke when Muldoon was eight, his mother eked out a living for the family. According to one of Muldoon's biographers, she was a formidable member of the local branch of the Labor Party and imbued Muldoon with a passion for politics. She also imparted her aggressiveness and dedication to the work ethic.

25X6

25X6

25X1

25X6

Muldoon has stressed New Zealand's strategic and economic dependence more than his predecessors have, but he views US foreign policy as a legitimate, vital concern of his government and expects the United States to accept well-meaning criticism from time to time. Muldoon expects his meeting with President Reagan in Washington on 24 February will bolster his electoral chances. Even though neutralist sentiment is growing among New Zealanders, most still place primacy on their country's ties with the United States. During his Washington visit he will probably underscore his

Confidential

Confidential

Muldoon studied cost accounting while in the service and after the war continued his studies in London for 18 months. He won an award as the best accounting student of the year in 1946, the first overseas student to do so. He returned to Auckland in 1947 to join an accounting firm, in which he rose to become a senior partner. []

Muldoon's political activity began on his return to New Zealand, and he joined the conservative National Party. Muldoon was slow to make his mark in politics and was elected to Parliament for the first time in 1960, on his third try. []

A Blossoming Politician

Muldoon was in his element in Parliament and quickly became a national figure through his penchant for speaking out forcefully on a wide range of issues. He also stood out among the National Party's "Young Turks," backbenchers with a tendency to quarrel with their own party leaders as well as with the Labor opposition. []

Muldoon's reputation as a political comer was underscored in 1963 when Prime Minister Holyoake appointed him chairman of an influential committee that scrutinized government expenditures. Muldoon took full advantage of the public exposure afforded by the job by traveling around the country ferreting out and publicizing cases of wasteful government spending. Among members of the party, he began to be seen as Holyoake's protege. This image was strengthened by his appointment as undersecretary of finance in 1963, a prestigious position for one who had served only three years in Parliament. []

Muldoon continued to rankle his parliamentary colleagues with his outspokenness, and Holyoake seemed to conclude that his [] protege needed some bridling. That appeared to observers at the time as the reason for Holyoake's not selecting Muldoon in late 1966 when he filled Cabinet vacancies with three less controversial members of Parliament. The interpretation that Muldoon was being held back gained further credence a few weeks later when Holyoake appointed Muldoon as Minister of Tourism, the bottom-ranked Cabinet position. []

Shortly thereafter, however, Muldoon's career got a fortuitous boost when the Minister of Finance suddenly died. Holyoake named Muldoon to the vacancy, apparently concluding that he could not ignore Muldoon's demonstrated abilities as finance undersecretary. With Muldoon's elevation in the Cabinet, his mother quietly let her membership in the opposition Labor Party lapse in order not to complicate her son's political advancement. []

Setting His Sights Higher

By this time Muldoon had become an established public figure, known for his ruthlessness to parliamentary opponents. He relished the notoriety and nurtured his public image of irascibility. According to political observers, Muldoon was obviously set on the prime-ministership and hoped that Holyoake—in considering retirement—would choose him over Deputy Prime Minister John Marshall. On Holyoake's retirement in early 1972, however, he followed party custom by asking the party to elect Marshall as his successor. At the end of 1972, the Marshall government received a stunning defeat at the polls that brought a Labor government into office for the first time in 12 years. []

Muldoon then began to campaign for the party leadership in earnest, arguing that only he—and not the gentlemanly Marshall—could carry the party to victory in the next elections. He engineered Marshall's ouster in July 1974 and won the leadership over the reservations of a great number of National Party members who admired Muldoon but did not like him. The unexpected death the next month of widely popular Labor Prime Minister Norman Kirk, and his replacement by the colorless Bill Rowling, paved the way for Muldoon's bid for the prime-ministership. []

Into the Driver's Seat

Muldoon led his National Party to the greatest political upset in New Zealand's history in late 1975 on the claim that he could right the country's faltering economy and maintain high living standards without abandoning sacrosanct welfare benefits. Having the

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X6

25X1

Confidential

Confidential

Muldoon the International Economist

Muldoon's limited achievements in solving New Zealand's economic problems have not deterred him from preaching international monetary reform to world leaders at international economic meetings at every opportunity. Now in his 14th year as Minister of Finance, he fancies himself as one of the senior statesmen on the international financial scene. His views on global economic issues reflect deeply held convictions based on genuine concern for the world's financial future. At present, Muldoon believes that the world economic situation remains fragile despite the upturn in the US economy. [redacted]

Among industrialized countries, Muldoon's proposals have at worst been greeted with skepticism and have at best elicited polite but guarded response. He wants to convene a new Bretton Woods-type international conference. He believes the international community has addressed financial and trade problems in a fitful and ad hoc manner and instead must work toward comprehensive rules of international economic conduct. Developed nations that have shown sympathy with Muldoon's views generally believe, however, that an international economic summit is not the way to proceed, according to US Embassy reporting. In response, Muldoon has been flexible enough to say he could settle for an approach which is less formal than duplication of the post-World War II Bretton Woods Conference. [redacted]

Muldoon has criticized the International Monetary Fund for imposing austerity on troubled Third World debtors in return for balance-of-payments loans. He believes the IMF's traditional prescription requiring recipients to adjust rapidly to balance-of-payments deficits should be replaced with a mechanism to provide long-term financing. To assist the world's poorest nations, Muldoon has called for measures that in effect would tax the world community, although he has not offered any examples. [redacted]

Muldoon has also called for the establishment of the financial equivalent of the United Nations Security Council to oversee balance-of-payments adjustments in developed economies. He would have the council not only scrutinize deficits but also seek adjustments in countries with large surpluses. [redacted]

He has called for a wholesale reduction in trade barriers notwithstanding his own country's excessive sheltering of local producers. He argues that because international loans must be paid from a country's export earnings, the tendency of countries to promote exports and discourage imports has had the effect of lessening world trade and, consequently, economic growth. [redacted]

outsider's advantage of being able to attack unsuccessful government policies, he made a convincing election campaign case that it was time for a change. [redacted]

Muldoon, who also took the finance portfolio, typically took no settling-in period to get the feel of what he should do. He quickly made what he considered necessary cuts in government subsidies on food, postage, transportation, and hospital care, steps that showed considerable political courage in view of the emotional attachment of New Zealanders to welfare benefits. [redacted]

Muldoon has not been content with being both Prime Minister and Finance Minister but makes most of the important decisions on a broad range of issues. He is a tough taskmaster and devastates any associate who is not in full command of the facts of a matter, according to political observers. He has his staff's loyalty, however, because of his enormous capacity for work and his impressive memory. [redacted]

Muldoon has been the most traveled New Zealand Prime Minister. In his first two years in office, he spent 150 days out of the country—mostly to push his

Confidential

Confidential

views on the international economy and financial reform—and has maintained a heavy travel pace since. []

The Big Test

Muldoon's chances of reelection will depend on how New Zealanders assess his handling of the country's faltering economy, according to recent public opinion polls in New Zealand (see appendix). Unemployment almost certainly will be the major election issue. Polls show that about half of New Zealanders view unemployment as the most serious national problem, with public concern over it double that over any other problem, such as the economy in general or foreign trade. Unemployment late last year had risen to a record 6 percent, an unacceptable level in a country with a tradition of full employment. Even the Minister of Labor admits that prospects are poor for an improvement in the unemployment picture over the next year, and the Labor Party is charging that the government understates the unemployment problem by counting as jobless only those who register. []

A particular focus for Muldoon in his eight years in office has been in finding new markets for New Zealand's narrow range of agricultural exports—wool, meat, and dairy products—which account for nearly 50 percent of exports. Muldoon has had some success, and he also can point out to the voters that in recent years he has gotten the United States—New Zealand's largest export market—to consider New Zealand concerns when disposing surplus butter on the world market and to maintain purchases of New Zealand casein.¹ Muldoon is, however, disturbed over the possibility that the United States will donate dairy surpluses to Jamaica, which now gets 70 percent of its dairy needs from New Zealand. He considers the US plan "a body blow." []

The government has slipped in public opinion polls, which have a good record for accuracy in New Zealand. The most recent polls show Labor in the

¹ Dairy products have for several years accounted for 20 percent of New Zealand's exports, and Wellington had argued that unregulated sales of US surplus butter could intrude into New Zealand's markets and ruin its economy. New Zealand has also been gratified by the decision of US firms not to develop a production capability for casein, a dairy byproduct used as a food additive and in making plastics and adhesives. The United States takes 60 percent of New Zealand's casein output. []

lead, although Muldoon personally continues to run ahead of his Labor Party counterpart, David Lange, as the electorate's choice for prime minister. Muldoon's position in his party is at present unassailable, even though he has many detractors. We believe that most party members realize that the Labor Party's present disarray is National's strongest asset and that it would be folly to engage in a leadership squabble in an election year, particularly in view of the government's one-seat parliamentary majority. []

The government has more reason for worry about the appeal of a new and aggressively free enterprise party, the New Zealand Party. Latest polls show that 18 percent of voters claim it as their preference. Whether they would carry this stated preference into the polling booth remains to be seen, but the new party's supporters would more likely be drawn from the ranks of National than from Labor. []

Even though the election is too close to call at this time, Muldoon has several advantages. Whatever his personal faults, he has projected an image of decisive leadership and of never shrinking from unpopular decisions. At home one of Muldoon's assets is almost certainly his unparalleled visibility. He rarely passes up an opportunity for a public appearance, and many New Zealanders probably respect his readiness to subject himself to criticism, against which he is more than capable of defending himself. In his frequent foreign travels, he has pushed New Zealand into the international scene. Most New Zealanders probably recognize this despite carping that Muldoon's junkets cause him to neglect domestic problems. []

Should Labor Win

The election of a Labor government would have serious implications for New Zealand's defense cooperation with the United States. The last Labor government (1972-75) closed New Zealand ports to US nuclear-powered warships, and the current Labor leadership has served notice that it would reimpose

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Confidential

Confidential

the ban on port calls.³ A Labor government would also advocate a South Pacific nuclear-free zone, as did the last Labor government. This idea, growing out of concern over French nuclear testing near Tahiti, could—if carried to its limits of a total nuclear ban—inhibit movement in the South Pacific of the US Naval Fleet, now 40-percent nuclear powered.⁴ Unable to come up with policies of its own to cure New Zealand's economic ills, Labor sees political benefit in identifying with a fear of nuclear contamination that is widespread and growing in New Zealand and which spans the political spectrum. Antinuclear concerns have even been voiced by several government backbenchers in Parliament. Sentiment is such that Muldoon—despite his commitment to the US alliance—would be loath to agree to a port call by a US nuclear-powered warship for several months prior to elections, an arrangement that prevailed in 1981, the last year Muldoon took New Zealand to the polls. [redacted]

25X1

³ Labor Party leader Lange has said a Labor government would consider port visits only on receiving US assurances that ships were not carrying nuclear arms, a condition unacceptable to the United States. He says he is personally satisfied that nuclear propulsion is safe and that his reservations are centered on nuclear weaponry. However, Lange clearly intimated in a speech in Washington last month that as Prime Minister he would be obliged to abide by prevailing sentiment in his party against visits by nuclear-powered vessels, whether they were nuclear armed or not. [redacted]

25X1

⁴ The Labor government in Australia presented its proposal for a nuclear free zone at the 1983 South Pacific Forum meeting, but it failed to win a consensus. [redacted]

25X1

25X1

Confidential

Appendix

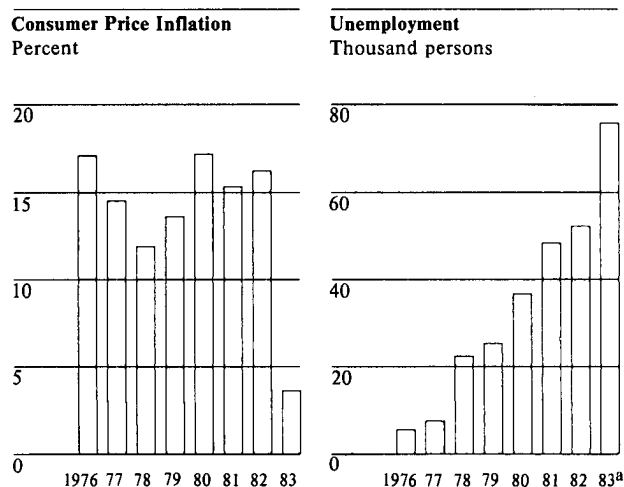
The State of the Economy

Despite a few signs of recovery in the last six months, economic activity in New Zealand remains weak. The Organization for Economic Cooperation and Development (OECD) estimates that real gross domestic product will decline slightly in fiscal year 1983 (April 1983–March 1984)—the worst performance since 1977. The manufacturing sector has been particularly hard hit. Industrial production in 1983 is nearly 10 percent below the level of a year earlier, and unemployment has risen from less than 10,000 in 1977 to nearly 77,000 in September 1983, a record 6 percent of the labor force. [REDACTED]

New Zealand's unemployment is, in fact, much worse than official statistics disclose. Wellington only counts as unemployed those workers who register with the Department of Labor. The Labor Party and many domestic economists, however, argue—correctly in our view—that the number of registered unemployed seriously understates the actual degree of joblessness. They claim that certain categories of workers not eligible for unemployment benefits (such as married women and 15 year olds) are systematically underrepresented because they have little incentive to register. The well-respected New Zealand Institute of Economic Research estimates that, if these groups are counted, the true unemployment rate exceeds 8 percent. [REDACTED]

The one bright spot Muldoon can point to is success against inflation. The wage/price freeze imposed in June 1982 for one year was extended in mid-1983 and is now scheduled to be lifted at the end of this February. The freeze has been successful in achieving Muldoon's goal of ending nine consecutive years of double-digit inflation. Consumer prices rose less than 4 percent in 1983, compared with 16 percent in 1982. Nonetheless, the failure of nominal interest rates to fall sharply indicates that the domestic financial market remains unconvinced about the underlying success of Muldoon's anti-inflation policy. The International Monetary Fund (IMF) is also concerned that a scramble for wage increases could develop after the freeze expires. Muldoon appears to recognize this

New Zealand: Consumer Price Inflation and Unemployment, 1976–83



^a Estimated.

301893 2-84

danger, and, according to the New Zealand Institute of Economic Research, plans to limit wage increases to 2.5 percent in 1984. [REDACTED]

In any case, substantial disagreement exists among financial analysts about the pace, if any, of the economic recovery in New Zealand in 1984. The OECD and the New Zealand Reserve Bank foresee little growth, but the US Embassy and several private economists predict growth between 2 and 4 percent. We believe these forecasts vary because of differing assumptions about the posture of economic policy—particularly monetary policy. [REDACTED]

New Zealand governments—including Muldoon's—have traditionally primed the economy with both fiscal and monetary policy in an election year. Since Muldoon took office in late 1975, the average annual rate of growth in the money supply during nonelection years has averaged only 3.6 percent. During the election years of 1978 and 1981, however, the money supply expanded at an average of nearly 20 percent. The IMF argues that the expansionary effect of these policies, although beneficial in the short term, cannot be maintained because of large current account deficits that have ranged between \$1 billion and \$1.5 billion each year since 1980. [REDACTED]

25X1

Muldoon has taken considerable heat over the issue. In addition to IMF criticism, the OECD last year scolded Wellington for the policy zigzags of recent years, arguing that they upset financial markets and have been taken with little attention to inflation or balance-of-payments considerations. Thus far the opposition Labor Party has not chosen to make this an election issue, probably—as many analysts believe—because it was guilty of the same practices in 1975, the last year it was in office. [REDACTED]

25X1

For his part, Muldoon is trying to focus voter attention away from unemployment and toward his record on inflation. For this reason, we believe he is unlikely to again turn on the monetary spigot. In fact, the most recent budget statement indicates the government is determined to adhere to a policy of monetary restraint. If Muldoon chooses to maintain a tight rein on the money supply, he will probably face the electorate late this year with a much weaker economy than in his two previous reelection bids. [REDACTED]

25X1

Confidential

Confidential